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Viewing cable 05BUENOSAIRES159, CODEL DODD VISIT TO ARGENTINA

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Reference ID	Created	Released	Classification	Origin
05BUENOSAIRES159	2005-01-21 18:51	2011-08-30 01:44	CONFIDENTIAL	Embassy Buenos Aires

Appears in these articles:

<http://www.lanacion.com.ar/1362536-clima-de-derrota-frente-al-narcotrafico>

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 04 BUENOS AIRES 000159

SIPDIS

E.O. 12958: DECL: 01/19/2015
TAGS: [PREL](#) [PGOV](#) [ECON](#) [EFIN](#) [ETRD](#) [PHUM](#) [AR](#)
SUBJECT: CODEL DODD VISIT TO ARGENTINA

REF: BUENOS AIRES 138

Classified By: Ambassador Lino Gutierrez for Reasons 1.4 (b) and (d).

11. Summary: (C) During their 24-hour visit to Argentina January 12-13, CODEL Dodd, accompanied by Ambassador Gutierrez, held informative and wide-ranging discussions with President Nestor Kirchner, Minister of Interior Anibal Fernandez, Deputy Foreign Minister Jorge Taiana, and Central Bank President Martin Redrado. In addition, prior to their arrival in Buenos Aires, the CODEL visited the Tri-border region of Argentina where they were briefed on GOA counternarcotics and counterterrorism activities. All of the interlocutors expressed their satisfaction with the overall state of U.S.-Argentine relations. In particular, they noted that cooperation with the U.S. on counternarcotics and counterterrorism issues was excellent. During a luncheon hosted by the Ambassador attended by a number of independent political and economic analysts, the CODEL was told how the U.S. Administration had been particularly helpful to

Argentina during the recent economic crisis, prompting Senator Dodd to state that the U.S. clearly had devoted considerable attention to support Argentina which is not what he thought prior to his visit. End Summary.

12. (U) Senators Christopher Dodd (D-Conn), Bill Nelson (D-Fla) and Lincoln Chafee (R-RI) had a brief but busy schedule during their visit to Argentina. CODEL Dodd was in Argentina to discuss political and economic trends in general and counternarcotics and counterterrorism cooperation in particular. In a last minute addition to the schedule, President Kirchner also received the delegation (reftel).

Interior Minister Fernandez Praises Cooperation

13. (C) In his opening remarks, Interior Minister Anibal Fernandez praised the level of cooperation the GOA has received from the U.S. on counterterrorism issues. He noted this cooperation was of ""high quality"" and ""value added"" that included ""shared information, sources and common action." He said this work continued on a day-to-day basis with a constant exchange of information. However, when asked by Senator Nelson if the cooperation was enough, Fernandez responded, ""No, it's never enough. We can do a lot more."""

14. (C) In response to a question on cooperation with Paraguay and Brazil on counterterrorism issues, Fernandez said there had been a lot of progress on common policy under the MERCOSUR umbrella but that joint work with its two neighbors was not as extensive as the GOA would prefer. With Paraguay, the problem was one of capacity, while with Brazil it was a question of willingness to cooperate. Fernandez, though, said the GOA was working to overcome difficulties with Brazil and that a common policy on counterterrorism was gradually emerging.

15. (C) Fernandez said his ministry was focusing on three major transnational themes: terrorism, narcotics trafficking and smuggling. In response to these challenges, the GOA had set out to define and create a common policy and response both at the federal and provincial level. A critical component of this common policy would be to reach a consensus in judicial terms on rules of procedure to fast-track investigations and prosecutions in these areas. Fernandez said that by February 1, the GOA would have a special strike force unit within the Attorney General's office to deal with

these issues. A second critical component of the GOA's efforts would be directed at coordinating the actions of the intelligence community on narcotics and terrorism investigations.

16. (C) When Senator Dodd asked about reports that Colombians were increasingly involved in narcotics trafficking in Argentina, Fernandez, at first, expressed skepticism. When told by an Embassy DEA representative attending the meeting that Colombians were behind a number of major narcotics cases currently being investigated by both Argentine and U.S. authorities, Fernandez agreed that ""Yes, it's possible." The Minister then said he was more concerned with the corrupting power of the money that goes along with trafficking than with who was actually running the drugs. He said drug seizures alone did not really capture the depth of the problem in Argentina. Fernandez, referring to two recent local drug lab seizures, added that drugs are not just reaching Buenos Aires, they are being processed here. In a somewhat somber conclusion to the meeting, Fernandez opined that ""we can't win (the fight against drug traffickers); what I don't want is to lose badly.""

Taiana: GOA Will Continue to Work Regional Issues

17. (C) Deputy Foreign Minister Taiana underscored to CODEL the GOA's intention of remaining actively involved in promoting human rights and democratic institutions in the hemisphere. Asked by Senator Chafee about relations with Venezuela, Taiana said the GOA had attempted to fashion a ""moderating role"" designed to reduce tensions within Venezuela. He noted that Kirchner had met with opposition leaders and factions during both of his visits to Venezuela. Taiana said he had discussed with Assistant Secretary Roger Noriega the question of human rights in Venezuela and how the GOA and the U.S. might work together in this area. Taiana mentioned in particular his concern about legislation either enacted or being considered by the Venezuelan legislature impacting on human rights. Senator Nelson commented that President Chavez claims he wants a new relationship with the U.S.; but what he really wants is the public relations benefits of better relations while continuing to crack down on the press, property rights and packing the Supreme Court.

18. (C) On other regional issues, Taiana told the CODEL that the GOA was firm in its commitment to Haiti. ""We can't turn

our backs or look at the cost. We can't fail." He said it was important that Latin America make a significant contribution and work to improve basic security and to build democratic institutions in Haiti. Taiana said that friendly and cooperative relations with Brazil and Chile were now Argentina's highest priority and that this change of culture from one of confrontation to one of cooperation with these two nations represented one of the greatest accomplishments of Argentina's 22 years of democracy. In his concluding remarks, Taiana reiterated the GOA's commitment for a successful Summit of the Americas which Argentina will host this November. He noted that the Summit would focus on the interrelated themes of creating jobs, fighting poverty and increasing democratic governance.

BCRA President Redrado Discusses Macroeconomic Issues

19. (SBU) Central Bank (BCRA) President Martin Redrado told the CODEL that Argentina's economic history could be summarized by the phrase, ""overspending and overindebtedness." He then claimed that the world was now seeing for the first time in Argentina fiscal discipline, a realistic floating exchange rate, prudential monetary policy, and ""productive integration with the rest of the world." Argentina had a consolidated fiscal surplus of 5.2 percent of GDP in 2004, including 4.3 percent of GDP in the central government plus almost another one percent in the provinces. Argentina's floating exchange rate is important for the ""productive integration"" of the Argentine economy with the rest of the world. The BCRA held inflation to 6.1 percent in 2004, below the originally targeted range of 7-11 percent. Redrado also recognized that the country still needed to ""address public utility and energy prices and adapt to a new regulatory framework"" or there ""won't be any investment"" and to obtain a successful debt restructuring with ""a strong response from the creditors.”

110. (C) Senator Dodd asked Redrado to what extent he thought there was tolerance in the body politic for badly needed structural reforms. On the debt restructuring, Redrado emphasized that this was not in his area of responsibility, but speaking as a private economist he thought that the strong participation of domestic pension funds, banks and industry would produce a participation rate of at least 45-50 percent. After that, he thought it was a question of how much manpower the participating banks had to persuade the

foreign bondholders to participate in the restructuring. Powerful investors like Soros have the option of going to the courts, unlike individual bondholders, and will win, but even then, they will not be able to collect because, unlike Venezuela, Argentina does not have assets abroad. From what he saw in the foreign exchange market, he thought investors wanted to go to emerging markets to take advantage of the difference in yields, and this increased the likelihood of a successful debt exchange. More specifically, he said that the spread between the yields on emerging market bonds and U.S. Treasuries was now only 350 basis points, or 3.5 percent, which was the narrowest spread that there had been in 10 years.

¶11. (C) On tax reforms, Redrado said that President Kirchner was fiscally conservative, to the point of blocking some changes. Redrado wanted to eliminate the distortionary financial transactions tax, which encourages people to operate in the informal economy. However, whenever he tried to eliminate the tax, President Kirchner would ask, ""With what are you going to replace it?"" On revenue sharing, Redrado said Argentina has a federal government with central tax collection and subsequent distribution of revenues to the provinces, which prevents the development of fiscal responsibility in the provinces. ""There is a move toward decentralization,"" he said, ""but this is hard to do politically.""" There is also a feeling that it is not worth the effort, so progress will be limited to reforms such as ""the elimination of distortionary taxes in due time.""" On the renegotiation of public utility and energy prices, Redrado said ""the sooner, the better"" but it is unlikely this will occur in an election year. Price increases that do occur will be limited to private companies, and will not affect residential users. Redrado explained that President Kirchner is ""willing to go over the heads of the political structure"" to appeal to the people and is therefore especially sensitive to the public's reaction to potential price increases.

¶12. (C) On monetary policy, Redrado said that there was a great deal of stimulus at the beginning of the year coming from measures like increased payments to retirees, higher wage payments, and postponed tax payments. The BCRA compensated by raising the BCRA interest rate from 2.5 to 2.75 percent. Redrado thought Minister of Economy Roberto Lavagna had implemented these measures in order to lower the consolidated fiscal surplus when he had to present the debt exchange to the country's creditors. Redrado said the BCRA wanted to tell the market that it would err on the side of

conservatism, dealing with ""inflation first, and the exchange rate second." If there was a problem with the exchange rate, he said, the GOA could use its surplus to buy dollars as it had done in the past. On relations with the IMF, Redrado said the IMF had ""made a mistake"" in not asking for a higher primary fiscal surplus in Argentina,s current IMF agreement.

Consequently, the GOA should commit to a higher surplus in the renegotiation of the current IMF agreement, but should ""not tie our hands"" as to how to use the surplus.

13. (C) Redrado said that he was sensitive to the things that are of interest to the U.S. He said that he was concerned about how the financial system could be used for money laundering to finance terrorism and that he had asked the Ambassador for technical assistance to tell the BCRA what it was doing right or wrong. (Note: During January 10-15 a U.S. Treasury technical assistance team visited Argentina to assess Argentina's anti-money laundering capability and possibilities for USG technical assistance in this area.) Redrado expressed particular concern about the use of Argentina,s money exchange houses for money laundering, since he did not have enough inspectors to inspect either the money exchange houses or banks in the provinces. Redrado added that he had just issued a BCRA resolution that permitted the BCRA to freeze financial accounts due to suspicious activity.

Lunch with Economic and Political Analysts

14. (C) In order to provide a different perspective on Argentine political and economic developments, the Ambassador hosted a luncheon for the CODEL with a number of prominent independent analysts. The main topic of the discussion was Argentina,s ongoing debt rescheduling offer and the country,s expected renegotiation of its existing IMF agreement. Daniel Artana, Director and Chief Economist of the Latin American Economic Research Foundation, was cautious about the potential outcome of the debt rescheduling, noting that even if all of the creditors accepted the offer, Argentina would still have a large debt burden, which he estimated at 80 percent of GDP. On the positive side, he noted the GOA had delivered much better fiscal results than in the past and would not have to go to the debt market for the next few years. Artana also thought that Argentina could obtain a new IMF agreement in the second quarter of 2005.

¶15. (C) Senator Dodd asked how the U.S. role during Argentina's recent economic crisis had been perceived. The lunch participants agreed that the U.S. role had been and continues to be very positive. Javier Finkman, Chief of Economic and Risk Research for HSBC Bank Corporation, described the U.S. as ""a friendly voice for Argentina"" and praised U.S. support in the G7 and the IMF. Political analyst Jorge Castro, president of the Argentine Institute of Strategic Planning, said that the USG had been the GOA's ""main supporter"" during the last 18 months. Senator Dodd said he was pleased to hear that the U.S. role had been constructive, since prior to his visit he had been convinced that this had not been the case.

¶16. (C) Another topic of discussion was the contrast between the faster than expected economic recovery and the persistently high level of individuals still living below the poverty line. Economist Artana noted that the economy would soon be back to where it was during its previous peak in ¶1998. Nevertheless, poverty and structural unemployment had doubled during the same seven-year period. In addition, two out of four of those employed work in the informal sector, and a third works for the public sector. Political and military analyst Vicente Massot observed that Argentina is a ""very peculiar country"" where social problems increase at a time when social conflict goes to zero. He argued that the lack of social conflict was due to the weakness of civil society and the political system's successful co-optation of the unions. Economic consultant Esteban Fernandez described President Kirchner as a ""neo-populist economic conservative,"" who takes a populist approach to politics while maintaining conservative fiscal and monetary policies. Senator Dodd responded that despite the problems, the overall lunch conversation had been much more positive than the conversations that he had had a year ago.

¶17. (C) Comment: All of the CODEL's interlocutors, up to and including the President, spoke highly of the GOA's cooperative relationship with the U.S. and President Bush's strong support for Argentina. At the conclusion of the luncheon, Senator Dodd acknowledged that he had come to Argentina believing that the Administration had not been helpful but recognized that the Bush Administration had been engaged in supporting Argentina. End Comment.

¶18. (U) CODEL Dodd did not review/clear on this cable.

¶19. To see more Embassy Buenos Aires reporting, visit our

classified website at

<http://www.state.sgov.gov/p/wha/buenosaires>

GUTIERREZ

=====CABLE ENDS=====